IS IT ANY
WONDER

Jack Wittmann
Sun Life of Canada.

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IS IT ANY WONDER

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PROLOGUE

Why does every prudent man want to accumulate wealth as quickly and as safely as possible? The answer is simple. He knows he has a responsibility to himself and to his family to provide financial protection against the *unpredictability* of dying too soon and of living too long! He knows not which will come first. All he knows is that time waits for no man.

What are the more practical and convenient ways to accumulate wealth? What dollar target should be set? How should the average man plan a long-term investment programme that will grow safely and surely? What should he know about different kinds of investments? How much should he rely on guaranteed investments? How much, in addition to the investment in his home, should he rely on equities? Where will the stock market be when he retires? – dies? – or needs money because of crippling injury or disease?

What types of investment, if any, are protected against income tax, heavy investment expenses, wrong investment decisions? What investments are protected against the inability to continue deposits due to crippling injury or disease? What types will pre-mature the average man's investment target should he die before retirement? Can he ensure that his capital will out-last his retirement years?

Is creeping inflation inevitable? Or will history repeat itself with future periods of deflation? Aside from developing his own skills and abilities, is there any way in which a man can protect himself against the twin possibility of higher living costs and lower common stock prices?

These are just some of the questions explored in the pages that follow.

IMPORTANCE OF PLANNING

YOU'LL EARN A FORTUNE

Have you ever paused to estimate how much money you will have earned by the time you retire? If not, we suggest you try to do so now. You may be pleasantly surprised; you may even be a little astonished. But most important, it may prompt you to take some positive action now to ensure you will have more than just memories and a small company pension when your earning days are over.

Just estimate what you think your average yearly earnings will be between the ages of 25 and 65. If you think you'll average $2,500 you'll have earned $100,000 in those forty years! Make it $25,000 and you'll have handled $1,000,000 by the time you retire. Whatever your figure may be – $100,000, $1,000,000 or something in between – to you it will be a *fortune!*

YOUR DISPOSABLE DOLLARS

Experts in the field of money management point out that a man has little or no control over the manner in which his earned dollars are split between tax dollars, bread-and-butter dollars and, finally, disposable dollars. Income and property taxes must be paid and the necessities of life must be provided. Only the balance of a man's income – *his disposable dollars* – is his to spend as he wishes.

What will have happened to your disposable dollars by the time you retire? Will you have spent them all on

luxuries or on speculations that went sour? Or, will you have saved enough of them to meet your investment target at 65?

INVESTMENT TARGET AT AGE 65

What should your investment target be? Should it be \$2,500 – \$25,000 – \$250,000? There is, alas, no pat answer. The experts, however, warn against setting it too high or setting it too low. Obviously, you should not ear-mark all your disposable dollars as savings dollars but, at the same time, you shouldn't forget that what you have *after* retirement will depend on how much you save *before* retirement.

One very practical rule of thumb is to aim at having a sum equal to 10% or 15% of what you expect to earn during your working years. For instance, if you think you will earn about \$200,000, why not set about \$20,000 or \$30,000 as your investment target? If you estimate you will earn about \$500,000, perhaps \$50,000 or \$75,000 would be suitable.

Much will depend on how much you have already saved; how much company pension, if any, you expect to receive; and, of course, how many years you have left to meet your investment target.

THE POWER OF COMPOUND INTEREST

But whatever your investment target may be, the sooner you start the better. In that way the amount you will have to save each year will not only be smaller, but the greater will be the "assist" from compound interest. The opposite table illustrates the significance of this statement.

Annual Amount that must be Invested Each Year to Accumulate to $10,000 by Retirement, Assuming Various Net* Rates of Compound Interest

Years to Retirement	2%	2½%	3%	3½%	4%
10	$895	$871	$847	$824	$801
15	567	544	522	501	480
20	404	382	361	342	323
25	306	286	266	248	231
30	242	222	204	187	171
35	196	178	161	145	131
40	162	145	129	114	101
45	136	120	105	91	79
50	116	100	86	74	63

Examples:

If you are age 35, if your investment target at age 65 is $50,000, and if you believe the investment you choose will earn 3% compound interest, *after investment expenses and income taxes,* you'll have to save $1,020 (5 × $204) a year for the next 30 years. Since 30 × $1,020 is $30,600, it is obvious that $19,400 (almost 40%) of your target of $50,000 will be an "assist" from compound interest.

* 'net' means *after investment expenses and income taxes.* For instance, investment expenses could reduce the return on a 6% mortgage to 5%, and a 40% top tax-bracket would then reduce it to a *net* rate of interest of 3%.

No wonder the late Will Rogers, that wise and witty philosopher, once said: "Compound interest is a great labour-saving device. The trouble is, most of us pay it no mind until we're too old for it to do us much good." This, perhaps, is one of the best reminders we could have that the main reason people fail to save (or if they start, don't persevere) is just plain every-day *procrastination* – putting off until tomorrow those things they know should be done today!

SOME STATISTICS

The 1959 reports of the U.S. social security board dramatically illustrate the danger of procrastination. In the United States – and no doubt the situation in Canada is somewhat similar – 12 out of every 100 married couples* over the age of 65 are actually in debt or have no assets at all; another 24 have a net worth of less than $5,000; and only eight have a net worth of $40,000 or more.

How did eight out of 100 couples accumulate $40,000 or more? No doubt one or two may have been born with a silver spoon, but the majority were not. They must have had a well-planned, longterm investment programme, and the vision and self-discipline to keep it up. There could have been no other way.

But what of the 36 out of 100 couples who were in debt or worth less than $5,000 when they reached 65? What misfortune decreed they should face a life of poverty after forty years of hard work? No doubt some of them were unlucky. Some, perhaps, were wiped out by the stock market crash of 1929 and never recovered. The majority, however, failed to carry out a sound long-term investment programme.

* Figures for single men and women are even less encouraging. Of every 100 over the age of 65, 33 are in debt or have no assets at all. Another 33 are worth less than $5,000, and only 3 are worth $40,000 or more.

AN INVESTMENT HOUSE SPEAKS

We all know that this same unfortunate habit of procrastination is prevalent today. Here's how one noted investment house puts it: "There are millions who let themselves drift into money habits that are just plain ludicrous. They will work forty hours a week, fifty weeks a year, for a whole lifetime to make money and yet they resent taking a couple of hours now and then to work seriously at the problem of using their money wisely. The longer we deal with investors, large and small, the more impressed we become with the need for *conscious and intelligent financial planning by everyone.*"

Most people think it's the planning that's difficult when, in fact, it's *finding the time* to plan that's really hard. But, granting you make the time to plan, how should you go about setting up a long-term investment programme for yourself; one that will work for *you?* The experts say there are five essential steps.

STEP ONE

Work out a family budget. Not any old budget but one you know you and your family can live with. That takes time and thought. Remember, a family budget is a highly personal and detailed document. Other people can help, but, in the final analysis, your budget has to reflect *your* family's needs, not what your adviser and his family need. So don't leave it all to someone else.

STEP TWO

Make yourself familiar with the advantages and disadvantages of all the various types of investment you could use but, equally important, assess your ability to handle each type of investment. Don't waste your time

learning about investments requiring a larger capital outlay than you can afford.

STEP THREE

Give top priority to one type of investment; one that will be the foundation and strength of your long-term investment programme; one that you will never neglect or sacrifice; and, of course, one that you believe will give you security of principal, a good rate of compound interest *after* investment expenses and income tax, and freedom from worry.

STEP FOUR

Choose your advisers with care. Be sure their knowledge, sincerity and recommendations merit your confidence.

STEP FIVE

ACTION! Not tomorrow; not next year; not when you get your next raise or lucky break, but NOW.

WHICH WILL THE EXPERT CHOOSE?

WHICH WILL YOU CHOOSE?

Which type of investment will you choose for your "top-priority" investment? first mortgages? bonds? face amount certificates? common stocks? preferred stocks? real estate? mutual funds? permanent insurance?

The life insurance industry and the life underwriter who serves you recommend permanent life insurance above all else. That, you may say, is to be expected. And we agree.

But the truth of the matter is that this faith in permanent life insurance as a long-term investment is shared by responsible experts *outside* the life insurance industry.

AN INVESTMENT HOUSE

Here are some extracts from *How to Invest*, published only a few years ago by Merrill Lynch, Pierce, Fenner & Beane*, one of North America's largest and most reputable distributors of bonds and stocks.

"*ALWAYS GET FIRST THINGS FIRST. In raising a family and building up an estate there are a lot of things that come before investing in securities.*

"*For example, we believe that family insurance comes first; not just an insurance policy but an insurance plan . . . If you . . . have never really worked out what you consider an adequate insurance plan, you should do it before you broaden the development of your estate by investing in securities.*

"*Home ownership is another type of investment that we think should generally come before security investment. . . .*

"*Some extra money in the bank comes before investing in securities.*

"*If you have children, you will also want to provide a plan for their education.*

"*Any general definition of 'investment' includes all of these things that a prudent man does with his money before he buys securities.*"

* now Merrill Lynch, Pierce, Fenner & Smith.

MUTUAL FUND MANAGEMENT

Interestingly enough, the top-management of many mutual funds seem to feel the same way. Mr. E. B. Burr, executive vice president of the One William Street Fund, one of the oldest and largest of today's mutual funds, acted as a spokesman for the mutual fund business at a 1959 public seminar. His views were summarized in a trade journal as follows:

"Financial security for the family should embrace these points:

1. *The need for emergency cash or its equivalent.*
2. *The need for life insurance to provide cash and continuing income should the breadwinner die prematurely. Term insurance may well be part of the life insurance programme but there is no substitute in my opinion for the value provided by permanent cash value life insurance in amounts the family considers adequate.*
3. *A careful plan for investment in equity securities.*
4. *Speculation in securities.*

A PROFESSOR OF FINANCE

Professor H. E. Dougall, Professor of Finance at Stanford University Graduate School of Business, a recognized authority on personal investment planning, was asked this question during a discussion on *How to start Saving:* "What advice would you give the young individual just starting out on his own?" This was his answer.

"I would say that he should line up his investment objectives in the order of their relative priority and then through the years attempt to satisfy them.

"Priority No. 1 would be a cash or liquid backlog sufficient for emergencies.

"Priority No. 2 would be the beginning of an adequate insurance program."

Professor Dougall's priorities 3, 4 and 5 were a home, bonds, and finally, common stocks.

A PROFESSOR OF ECONOMICS

Dr. Arthur R. Upgren, Bigelow Professor of Economics at Macalester College and Economic Consultant to the first National Banks of St. Paul and Minneapolis, is another firm believer in the investment values of permanent life insurance. In his series *How to be Your Own Economist* he writes:

"The writer can testify to the desirability of buying life insurance which provides in addition to protection the building up of cash values and loan values. From an early obtained endowment policy he financed temporarily the peaks in the cost of obtaining a college education. Other policies have provided the cash loan values for the purchase of a new home and more recently for the purchase of real estate. Yet at all times balance has been maintained between an investment in life insurance and other forms of investment. But it has been life insurance values that have made other investments quickly possible, not the other way around. Thus life insurance must come first in an investment program."

A CANADIAN BUSINESS MAGAZINE

The February 1959 issue of the *Monetary Times*, one of Canada's impartial business magazines, discussed Canadian investment opportunities in stocks, mutual

funds, bonds, banks and permanent life insurance. The opening and closing paragraphs of *Life Insurance As a Sound Investment Medium* are masterpieces of conciseness:

"The function of life insurance as an investment medium of the very safest category has remained practically unchallenged during the entire course of our national economic growth. The first native company was established here 111 years ago and, since then, no policyholder in a Canadian life insurance company has ever lost a dollar through nonpayment of the amount guaranteed under his policy at death or on maturity.

"Among the existing attributes of life insurance policies are safety of principal, a reasonable rate of return, efficient management, favourable tax-treatment, protection against creditors, ready marketability, suitability for quick borrowing and adequate government supervision. They all combine to produce a situation which enables the insured to make an extremely sound investment if he should live and to provide protection in the full amount he had intended to save if he should die. This unique and dual contribution is truly an impressive one that will be found in no other field of financial activity."

RESPONSIBLE OPINIONS

These testimonials to permanent insurance as *the* top-priority investment stem, not from inexperience and irresponsibility, but from the *convictions of experienced and responsible men* who, through their impartial analysis and research into the many facets of family finance and economics, have come to know the value of permanent life insurance.

WHOSE ADVICE?

Whose advice should you follow in choosing your top-priority investment – the tipster's or that of responsible and impartial experts? The choice is yours.

"DO IT YOURSELF?"

Despite the impressive manner in which permanent insurance meets the twin needs of protection and long-term investment, there are some who urge their friends and clients to look after their own investments through what we might call a do it yourself fund.

THEORY VERSUS PRACTICE

There is nothing wrong in theory with a do it yourself fund but there may be many things wrong in practice. However large your investment target may be, remember you will be trying to achieve in a rather small way the same security of principal and attractiveness of investment return that the life insurance companies have been achieving successfully in a big way for over a century.

INVESTMENT EXPENSES

In addition to the dollar risks attendant upon your buying *and* selling the *right* investments at the *right* time, you will incur both investment expenses and income tax, both of which will reduce your investment return. Income tax is a subject in itself and is dealt with later. Here let us examine some of the investment expenses the interest on your do it yourself fund will have to absorb:

Investment Counselling Fees	Accounting Records
Investment Services	Auditing Fees

Legal Fees
Safety Deposit Boxes
Postage and Stationery
Bank Charges
Collection Fees
Transportation Costs

You may consider some of these somewhat remote, even unlikely; but a moment's reflection should convince you that many are unavoidable. At the beginning they will not add up to very much but, likewise, the amount of interest you earn will not be very much. However, as your do it yourself fund grows and the number of individual investments increases, these investment expenses will add up to a significant amount every year.

TIME AND ENERGY

Then there is the question of the time and energy needed to supervise your fund. The decisions you make must be reasonably good; otherwise your entire long-term savings programme may be in jeopardy. Indeed the demands upon your time and energy could become a serious personal problem in later years; the price of indifferent supervision could be financially disastrous.

All of which is not to say you should never make individual purchases of bonds, stocks, real estate, mutual funds or some other investment or speculation you like but, rather, to suggest to you that your minimum long-term investment target should be achieved through permanent insurance. The savings dollars you direct into permanent insurance provide, not only protection and investment, but that priceless intangible — *peace of mind.* In this way, (and perhaps no other), you will be sure to reach your investment target with a minimum of expense and worry to yourself.

IS IT ANY WONDER?

Is it any wonder that those who know and understand permanent insurance always recommend it as an expense-free, worry-free long-term investment?

INCOME TAX HURDLES

PERSONAL INCOME TAXES

Little did our parents and grandparents realize the far-reaching effects that taxation would have upon their children and their children's children when, as a war-time measure, the federal government decided to tax both earned and investment income. Since 1917, this tax has remained an essential feature of the Canadian tax structure, and will undoubtedly continue as such, whatever our private thoughts on the subject.

Personal income tax rose sharply during World War II. In the five year period, 1930-1934, the average annual amount of personal income tax paid by Canadians was only $35,000,000. For the periods 1940-1944 and 1955-1959, it increased to $433,000,000 and $1,558,000,000 respectively!

The significance of personal income tax to the individual lies mainly in its *inescapability*. One can avoid sales tax on liquor or tobacco merely by not drinking or smoking. But personal income tax, representing a reduction in wages, in salaries and in most forms of investment income, is inescapable.

ALL TAXES

Personal income tax, however, is only part of the over-all tax picture. In the final analysis all taxes whatever their character, must be absorbed by the Canadian labour force as consumers.

The average annual amounts of *taxes of all kinds* paid to our three levels of government in the periods

1930-1934, 1940-1944 and 1955-1959 were $678,000,000 $2,238,000,000 and $7,128,000,000! For the period 1930-1934, these figures represented approximately 30% of all wages and salaries, about 50% during World War II and, since then, about 45%!

TAXES ARE NECESSARY

These vast amounts of direct and indirect taxes paid by Canadians to their three levels of government cannot be avoided. Ever since World War II – and even earlier – taxpayers have demanded that their three levels of government assume steadily increasing financial responsibilities; in fact, many thoughtful students of politics believe the majority of taxpayers will continue to insist that they assume even greater responsibilities in the future. Our purpose is merely to remind the prudent man, determined to save for his old age, that he cannot afford to ignore the effect of possible future tax levels, particularly future levels of personal income tax, on both the amount he can save each year, and on the amount of interest his savings can earn each year – not just this year but in each and every year until his retirement.

EFFECT OF INCOME TAX

How important is the effect of income tax on a "do it yourself" fund? Remember that investment income* is added to your earned income and therefore attracts income tax at your top tax bracket percentage. You'll get the idea quickly from this extract from the 1959 Income Tax Return, on the next page.

* Since 1949, dividend income from Canadian common stocks has been taxed at a lower rate than other investment income.

Taxable Income	Amount of Tax	Taxable Income	Amount of Tax
$ 2,000	$ 300 – 19½% on excess	$12,000	$ 2,855 – 39% on excess
3,000	495 – 18% on excess	15,000	4,025 – 44% on excess
4,000	675 – 21% on excess	25,000	8,425 – 49% on excess
6,000	1,095 – 25% on excess	40,000	15,775 – 54% on excess
8,000	1,595 – 29% on excess	60,000	26,575 – 59% on excess
10,000	2,175 – 34% on excess	90,000	44,275 – 64% on excess

EXAMPLE

Thus if your present taxable earned income is $2,000 and your investments earn $100 of interest, the tax on the interest would be 19½% of $100, or $19.50. Looking at the problem in another way, if this $100 represented an interest return of 4% after investment expenses, income tax would reduce this 4% to 3.22% (80½% of 4%). Remember, however, that in estimating the effect of income tax from now until your retirement, you must recognize that your future top tax bracket percentages may be higher.

A HYPOTHETICAL CASE

To illustrate the long-term effect of income tax on a "do it yourself" fund, let's assume you are a young professional or executive type and that you can find a bank (you can't, of course) offering the following terms:

1. Guarantee 4% compound interest on deposits of $1,000 a year.
2. Guarantee to reinvest interest promptly at 4% compound interest.
3. Guarantee absolute security of principal.
4. Guarantee to comply with these conditions for 30 years.

Let's also assume that you are now age 35; that your future taxable earned income will be $6,000 annually for the first five years; $8,000 for five years; then $10,000 for five years; then $12,000 for five years and, finally, $15,000 for the next ten years. By that time you will be age 65.

Now, let's examine just how your 4% "do it yourself" fund in the bank will grow, first assuming there is no income tax and then assuming you will be subject to 1959 top tax brackets for the next 30 years.

THE IMPACT OF TAXATION

			Assuming 1959 Tax Rates			
To End of Year	Total Deposits	Value of Untaxed Account	1959 Top-Tax-Percentage	Value of Taxed Account	Reduced Interest Rate	Value Lost Due to Income Tax
1	$ 1,000	$ 1,040	25%	$ 1,030	3.00%	$ 10
5	5,000	5,633	25	5,468	3.00	165
10	10,000	12,486	29	11,733	2.89	753
15	15,000	20,825	34	18,776	2.76	2,049
20	20,000	30,969	39	26,559	2.63	4,410
25	25,000	43,312	44	35,016	2.50	8,296
30	30,000	58,328	44	44,464	2.43	13,864

REVIEW OF HYPOTHETICAL CASE

What are some of the more important lessons you can learn from the above figures?

First, you learn that 30 annual deposits of $1,000 will grow to $58,328 if there is no income tax – an "assist" from compound interest to the tune of $28,328 (58,328 minus 30,000) – almost as much as your total deposits!

Second, you learn that income tax will reduce that $58,328 to $44,464 – a loss of $13,864!

Third, you learn that income tax will reduce your assumed 4% to 2.43%!

Finally, you learn the most important lesson of all — that any long term investment which legally escapes income tax is of the utmost value to everyone saving for retirement. In fact, it ranks equally with security of principal.

5% INSTEAD OF 4%

However, you may feel that 4%, after investment expenses, is too conservative. (We doubt it; if you are not convinced just take a look at the history of interest rates for the past 30 years.) Let's assume you could earn, say, 5%, after investment expenses. Using the same earned income and top tax bracket assumptions as were used for the hypothetical bank account, $1,000 invested annually for thirty years would be worth $49,354 which represents, not 5%, but 3.04%.

A LOWER INCOME

Then again you may not have a present taxable earned income as high as $6,000, nor feel that your future taxable earned income will ever reach $15,000. Perhaps your present taxable earned income is $2,000, with little prospect of it ever increasing. If so, your top tax bracket is now 19½%, and may remain so. If your "do it yourself" fund earns 3½%, after investment expenses, income tax will reduce it to an effective rate of about 2.82%. There is, however, little chance of a small investment of, say, $100 or $200 a year consistently earning as much as 3½% after investment expenses.

A STILL HIGHER INCOME

Alternatively, you may now be in a very high tax bracket but never expect to move into the next one. For in-

stance, if your present taxable earned income is $25,000, you won't go into the next tax bracket until it passes $40,000. If this be the case, your present top tax bracket is 49%. Hence, even if your "do it yourself" fund earns as much as 5%, after investment expenses and the occasional failure to reinvest all the interest, income tax will reduce this 5% to 2.55%. Make it 6%, after investment expenses, and it will still be only 3.06%.

All of which makes it obvious that no prudent investor, whatever his earned income may be, can afford to ignore the effect of personal income tax. In its study, *The Dilemma of High Taxes and Low Investment Yields, the Research and Review Service* draws attention to this matter in this way — "A careful study of income taxes on the basis of present rates compels thoughtful men to reach a significant conclusion with regard to investment practices in periods of exceedingly high income taxes. It is this . . . the investment plan should be one that builds up deferred income, not subject to taxes now."

PERMANENT LIFE INSURANCE

One of the great advantages of permanent life insurance as a long-term investment is that it accumulates free of income tax to the investor — a fact rarely, if ever, disclosed by those who advocate a combination of term insurance and a separate and taxable "do it yourself" fund.

IS IT ANY WONDER?

Is it then any wonder that responsible and impartial experts recommend permanent life insurance — the one long-term investment that is not subject to income tax?

INVESTMENT AND PROTECTION

WHAT IS PERMANENT LIFE INSURANCE?

There are many plans of permanent life insurance. The best known are ordinary life, limited pay life and endowment. While the premium rate per $1,000 of sum assured differs from plan to plan, they all have one thing in common: *certainty that the sum assured will someday be paid.* Indeed, it is this quality that not only distinguishes permanent insurance from term insurance but makes it an ideal long-term investment contract for everyone.

Every plan of permanent insurance is a convenient, attractive and unique combination of two elements — *an increasing investment element and a decreasing protection element.* Hence, if you decide to surrender the policy, the company pays you the accrued investment element and, of course, cancels the protection element. On the other hand, if you die, the company pays your beneficiary the sum of the two elements.

There is nothing mysterious about this concept. It merely packages into one contract the twin objectives of increasing investment and decreasing protection which some critics say should be handled independently. What the critics overlook are the many tax, legal and practical considerations, explained elsewhere, which make permanent insurance a safe, sure, convenient and low-cost way of achieving these twin objectives.

Once you grasp the significance and value of this concept you will be able to detect the misleading arguments

and half-truths employed by those who advocate other more complex and less direct ways of achieving the twin objectives of investment and protection.

But, more important, you will suddenly realize why permanent insurance is a very special type of preferred and protected property and why it should be the foundation of every prudent man's long-term investment programme.

ONE PREMIUM FOR TWO ELEMENTS?

"But", you might well ask, "how *low* is the cost of the decreasing protection element, and how *high* is the interest return on the investment element?"

Because one level annual premium pays for both elements, the layman is usually unable to find completely satisfactory answers. However, with the help of your life underwriter and some quite simple mathematics, satisfactory answers are not hard to find.

Three steps are involved.

First, you must select some fixed period of time, such as to age 65 (when most people plan to retire), at the end of which we assume you will surrender the policy for cash or retirement income.

Second, you must know what it would cost you to purchase a separate term policy duplicating precisely the decreasing protection element in the permanent insurance plan. Although no company sells such a term policy, this *protection premium* can be easily estimated. The *investment premium* is, of course, the balance of your annual premium.

Third, you must calculate the rate of compound interest that will be earned by *this investment premium* to ac-

cumulate to the total cash surrender value at the end of the fixed period of time.

To demonstrate these three steps, we have selected three popular participating plans, namely, ordinary life, life to age 65 (whole life, with premiums ceasing at age 65), and endowment at age 65. In each case, we have assumed a sum assured of $10,000, age at issue 35 and a fixed period of 30 years.

Annual dividends may be applied in one of three ways — to reduce premiums each year; left on deposit to accumulate at interest; or used to purchase paid-up additions to the sum assured. For the purpose of these demonstrations, we have chosen the third way. These paid-up additions will have the effect of gradually increasing the amounts payable on death and also of gradually increasing the amounts payable on surrender.

The figures used in these demonstrations are not typical of any one company but are based on smoothed averages taken from the 1960 rate books and the estimated paid-up addition scales of well-known Canadian companies. They will serve, however, to illustrate the attractiveness of permanent insurance as a combination of investment and protection.

$10,000 ORDINARY LIFE PREMIUM $230

The total amount payable on death, being the sum assured plus paid-up additions, increases gradually from $10,000 to $14,190. The total amount payable on surrender, being the guaranteed cash surrender value plus the cash value of paid-up additions, increases gradually from $0 to $8,090. This, of course, is the increasing investment element implicit in

At Attained Age	Total Amount Payable		Amount of Decr'g Prot'n
	On Death	On Surrender	
35	$10,000	$ 0	$10,000
45	10,960	1,830	9,130
55	12,380	4,690	7,690
65	14,190	8,090	6,100
Average	11,883	–	8,230

this ordinary life policy. The amount of decreasing protection is, of course, the difference between the total amount payable on death and the total amount payable on surrender.

As you can see, this protection element decreases from $10,000 at age 35 to $9,130 at age 45; then to $7,690 at age 55; and, finally, to $6,100 at age 65. Adding these four figures and dividing by 4, we find that the *equivalent* level amount of protection is approximately $8,230.

Since the annual premium for a $1,000 term to age 65 policy is about $12, the *protection premium* for a separate decreasing term policy (duplicating the decreasing protection element implicit in the ordinary life policy) is about $12 times 8.230, or $99. Thus the *investment premium* is $230 minus $99, or $131.

All that now remains to be done is to calculate the rate of compound interest that will be earned by $131 a year to accumulate to $8,090 in 30 years. Turning to any standard set of interest tables*, you will find the rate is over 4% per annum.

And so this typical $10,000 participating ordinary life policy combines in one neat package, a reasonably priced decreasing protection element and an attractive expense-free, tax-free, long-term investment element!

$10,000 LIFE TO AGE 65 PREMIUM $255

Using the same method as for the ordinary life policy, we find that the equivalent level amount of protection is approximately $7,553. The *protection premium* for a separate decreasing term policy (duplicating the decreasing protection element implicit in the life to age 65

* or use table on page 3.

At Attained Age	Total Amount Payable On Death	On Surrender	Amount of Decr'g Prot'n
35	$10,000	$ 0	$10,000
45	11,060	2,200	8,860
55	12,670	5,680	6,990
65	14,660	10,300	4,360
Average	12,098	–	7,553

policy) is about $12 times 7.553, or $91. Thus the *investment premium* is $255 minus $91, or $164.

We now calculate the rate of interest that will be earned by $164 a year to accumulate to $10,300 in 30 years. Again, turning to the interest tables you will find the rate is over 4% per annum.

$10,000 ENDOWMENT AT AGE 65 PREMIUM $300

Using the same method as for the other two policies, we find that the equivalent level amount of protection is approximately $5,803, and that the *protection premium* is about $12 times 5.803, or $70. Thus the *investment premium* is $300 minus $70, or $230.

At Attained Age	Total Amount Payable On Death	On Surrender	Amount of Decr'g Prot'n
35	$10,000	$ 0	$10,000
45	10,920	2,770	8,150
55	12,370	7,310	5,060
65	14,240	14,240	0
Average	11,883	–	5,803

Again, by reference to a standard set of interest tables, you will find the rate of compound interest at which $230 a year will accumulate to $14,240 in 30 years is over 4% per annum.

IT'S A LONG TERM INVESTMENT

One warning, however. Permanent life insurance is a wonderful long term investment but it has never claimed to be a good short term investment.

For instance, seldom will the cash surrender value at the end of five years be greater than the sum of five *investment premiums*. On the other hand, the cash surrender value at the end of ten years will generally be significantly greater than the sum of ten *investment premiums*.

GENERAL ASSESSMENT

These examples illustrate how each of the three policies combines in one neat package a reasonably priced decreasing protection element and a long-term investment showing an expense-free, tax-free, interest return of over 4% per annum. If dividends are increased, the investment return may be a shade higher; if they are decreased, it may be a shade lower.

Wonderful? Yes it is, and don't forget this 4% return comes to the investor free of investment expenses and income tax. How much would your "do it yourself fund" have to earn to do as well? If investment expenses average ½% and your future top-tax bracket averages 20%, it would have to earn over 5½%. Make your future top-tax bracket 40%, and it would have to earn over 7%.

OTHER THINGS TO REMEMBER

If you need more death protection for a temporary period, while your children are at school or while your home is mortgaged, you can add a term rider to your choice of permanent insurance at less cost than by buying a separate term policy. Remember, too, that you can add yet another benefit, also at surprisingly low cost; one that will ensure that, should you become totally disabled for at least six months before age 60, the insurance company will pay the premiums for you during your continued disability. Moreover, for a small additional premium, the company will also pay you, during your

continued disability, a non-taxable income of $1,200 a year (payable monthly) for each $10,000 of permanent insurance you buy. Low cost decreasing term insurance! Attractive tax-sheltered long term investment! Low cost additional death protection! And, if you wish, all three protected against the "living death" of total disability!

IS IT REALLY ANY WONDER?

Is it really any wonder that responsible financial advisers and planners give top-priority to permanent insurance as the foundation of everyone's long-term investment programme?

HIDDEN VALUES

Permanent life insurance has many qualities and characteristics which may not be known to the vast majority of long-term investors. So far we have demonstrated two of these hidden values – the unique combination of a reasonably priced decreasing protection element and an attractive expense-free, income tax-free, long-term investment element. However, there are many other hidden values which the average long-term investor seldom realizes. They too merit your careful consideration.

PSYCHOLOGICAL URGE TO PAY PREMIUMS

Whether you are a $2,500 or $25,000-a-year man, the chances are that you are living right up to your income and you will never reach your planned investment target unless you consistently set aside a fixed amount at regular intervals and invest it in a long term savings plan you truly respect.

With most other long-term investments, there's never a feeling *you have to pay*. It's different with permanent

insurance. You won't want to stop paying. Why? Because not only will you be paying into an expense-free, tax-free long-term investment but you will also be paying for protection against death and, if you have chosen to do so, against the possibility of being unable to keep up your investment due to total disability.

PRE-GUARANTEED FLEXIBLE PAY-OUT

The prime purpose of your long-term investment programme is to provide a retirement income when your earning days are over. The most suitable form of income will not be known until you retire. For instance, at that time you may wish to use one portion of your savings to purchase a life annuity; another portion to provide a temporary income until you qualify for the old age pension; and you may even decide to hold a portion in reserve to be drawn upon as needed.

The settlement option provisions included in permanent life insurance policies offer all these alternatives on a *pre-guaranteed* basis and the entire assets of the company stand behind the settlement you choose. The premium rate for the life annuity option is guaranteed when you buy the policy; likewise the interest rate used in calculating the temporary income or when money is left with the insurance company is also pre-guaranteed and, in fact, the companies pay additional interest if it is earned. At present, most companies are paying at least 4% interest.

It is difficult to over-emphasize the importance of this provision. With people living longer in each succeeding decade, the pre-guaranteed life annuity options are an invaluable hedge against the possibility of annuity costs being higher when you retire.

Remember a life annuity is the only way to make sure your capital will last until the end of your life and *only*

a life insurance company can pre-guarantee life annuity rates.

SECURITY OF PRINCIPAL

Arthur Wiesenberger & Co., members of the New York Stock Exchange and publishers of "Investment Companies" stated "Preservation of capital at all times should be the major objective of every investor and a primary concern of his investment adviser".

Common stocks and mutual funds are all right for your luxury dollars, but security of principal is essential for your security dollars. Professor Dougall is credited with the following observation; "I think if one wants to do a little speculating – and who doesn't? – the funds for speculation should be kept in a distinct pocket by themselves, entirely apart from one's long range investment program".

That, of course, is precisely what permanent life insurance, with its guaranteed cash surrender values, does – but in reverse. It creates its own pocket of basic security which no prudent man would invade for speculative purposes.

Every life insurance company employs a staff of highly experienced security analysts. Pooling their judgment, they make sure that your cash values and declared dividends are invested to ensure the best possible interest return commensurate with absolute security of principal.

That, perhaps, is why the Superintendent of Insurance for Canada was able to state that *never in the history of Canadian life insurance had a policyowner ever lost a dollar of the benefits guaranteed by his policy.*

PROTECTION AGAINST CREDITORS

The law regards life insurance somewhat as a trust when a beneficiary has been appointed. Thus, under most circumstances, both its protection and investment values are protected against the claims of creditors. No other long term investment, unless it forms part of an irrevocable trust, enjoys this privilege.

How significant is this to you? Let's take a couple of examples.

Suppose you are in a fatal automobile collision and both you and the other driver are killed. If the Court found it was your fault, your entire estate could be taken to satisfy the judgment. But there is one important exception. Provided you had named a beneficiary, the proceeds of your life insurance cannot be used to satisfy the judgment. It couldn't happen to you? Perhaps, but remember that none of the thousands killed on North America's highways every year thought it could happen to them.

Take another case. Suppose you went into debt in order to establish a business and, suppose through no fault of your own, you are forced into bankruptcy. All your assets could be seized but, again, there is one major exception. Your cash surrender values could not be seized if the policy names a beneficiary unless, of course, fraud can be proven.

THE HAZARD OF TOTAL DISABILITY

There are two major hazards which, if either happens, could mean the end of a do it yourself fund. The first is premature death. The second is the inability to earn a living due to total disability.

By adding the total disability waiver of premium benefit to your permanent life insurance policy, should you become totally disabled for at least six months at any time before the age of 60, the company takes over the premium payments for you. In this way, not only will your protection be continued but your long term investment target will be reached without paying a penny during your continued total disability.

How likely is this to happen? The statistical studies of life insurance companies show the chances of becoming totally disabled for at least six months before age 60 are about the same as the chances of dying before age 60.

How much does this cost? Very little. For a man age 35 it costs about 2% of the premium for his permanent insurance.

The life insurance companies also offer more complete protection against total disability. By adding the total disability waiver and monthly income benefit to a $10,000 policy, not only would the company waive the payment of premiums, but, in addition, pay you a tax free income (in monthly instalments) of $1,200 a year.

Again, how much does this additional feature cost? Surprisingly little. For a man age 35, it costs less than $50 a year.

Total disability has frequently and properly been referred to as "the living death". Financially, the total disability of the wage-earner can be more serious than his death – unless he had had the vision to add the total disability and monthly income benefit to his insurance.

These valuable *non-cancellable, guaranteed renewable, low cost* total disability benefits cannot be obtained

with any other form of long-term investment contract; only as an addition to permanent life insurance. No long-term investor, considering the investment hazards of life, can afford to ignore them.

LOW COST ADDITIONAL PROTECTION

There is a distinct difference in the cost of a term policy and what the life insurance industry calls a term rider. Because the term rider is added to permanent insurance, much of the overhead administration costs are already absorbed by the permanent insurance. Hence the premium for a term rider is always significantly lower than for a term policy of equivalent coverage.

Thus, when the long-term investor purchases permanent insurance but still needs some additional protection during, say, the minority of children, the most economical way to obtain this additional protection is by the addition of a term rider.

There are many types of term riders to fit every situation. Some provide a level amount of protection for a given number of years. Others provide a decreasing amount of protection.

GUARANTEED INSURABILITY BENEFIT

Another rider benefit offered by most insurance companies is the so-called guaranteed insurability benefit. Designed for children and younger adults who cannot afford or do not need a large amount of permanent insurance at the present time, this benefit will give the insured the right to purchase (at standard rates) additional permanent insurance when he reaches ages 25, 28, 31, 34, 37 and 40. Thus, a young man of 22 purchasing a $10,000 policy will have the right to buy six more $10,000 policies at the future ages indicated

regardless of his state of health or nature of his work when the future purchases of life insurance are made.

ACCIDENTAL DEATH BENEFIT

The accidental death benefit provides that if the investor dies by accidental means the company will pay an additional $10,000 for each $10,000 paid from the permanent insurance. The accident must usually occur before age 65 and death must occur within 90 days of the accident. With well over 50% of deaths at the younger adult ages resulting from accident, this benefit can be a valuable addition to any policy. The cost is less than $15 per $10,000 of benefit.

PEACE OF MIND

This *hidden value* – peace of mind – is the sum total of all the other *hidden values* we have explored with you. Permanent insurance frees your mind of any worry about your comfort and independence in old age, and, at the same time, of any worry about your family's financial security should you prematurely die or become totally disabled.

IS IT ANY WONDER?

Is it any wonder that permanent life insurance is so often referred to as *preferred and protected* property – the one long-term investment to which the experts in family finance and economics give top priority?

TERM INSURANCE

PROBABILITIES OF DEATH AND SURVIVAL

Before you can fully appreciate the relative virtues of term and permanent insurance you need to know something about the probabilities of death and survival.

CHANCES OUT OF 100 THAT A PERSON WILL SURVIVE TO A GIVEN FUTURE AGE

Present Age of Person	50	55	60	65	70	75	80	85	90	95
	Given Future Age									
20	91	86	80	70	59	45	29	14	5	1
25	92	87	80	71	59	45	29	15	5	1
30	93	88	81	72	60	46	29	15	5	1
35	94	89	82	72	61	46	30	15	5	1
40	95	90	83	73	61	47	30	15	5	1
45	97	92	85	75	63	48	31	15	5	1
50		95	87	77	65	49	32	16	5	1
55			92	81	68	52	33	17	6	1
60				88	74	56	36	18	6	1
65					84	64	41	21	7	1
70						76	49	25	8	2
75							65	32	11	2
80								50	17	4

Derived from DBS 1951 Vital Statistics

Explanation:

For a person now aged 35, the probability that he will survive to age 65 is 72 chances out of 100, or 72%. Since he must either die or survive, the probability he will die before age 65 is 28 chances out of 100, or 28%.

Let us compare the relative merits of a non-participating term to age 65 policy and a participating life to age 65 policy in the light of the foregoing probabilities. Assume you are now age 35.

TERM TO AGE 65 POLICY

If you buy a $10 ,000 non-participating term to age 65 policy requiring 30 annual premiums of $120 each, your heirs will collect $10,000 if you die before age 65 but *you* will collect nothing if you survive to that age.

LIFE TO AGE 65 POLICY

If, however, you buy a $10,000 participating life to age 65 policy requiring 30 annual premiums of $255 each, your heirs will collect $10,000 plus estimated paid-up additions (an average death benefit of about $12,098) if you die before age 65. If you live, you will collect $10,300, including an estimated $3,290 for the cash value of the paid-up additions.

Now let's apply the probabilities of death (28%) and survival (72%) to the amounts the two policies will pay if you die before age 65 and if you survive to age 65.

THE PROBABLE VALUES

The probable value of the term policy is 28% of $10,000 plus 72% of $0 which adds up to $2,800. On the other hand, the probable value of the life to age 65 policy is 28% of $12,098 plus 72% of $10,300 which adds up to $10,803.

Now which plan gives better value for the premiums paid?

The life to age 65 premium ($255) is 2.125 times the term to age 65 premium ($120) but, in turn, its probable value ($10,803) is 3.858 times the term policy's probable value ($2,800)!

THE REASONS WHY

"Why", you might well ask, "is the permanent plan so much better than the term plan?"

There are a number of reasons, but let us consider just two of the more important. First, there is the matter of administrative costs, for in many respects it costs no more to administer a policy with a premium of $255 than one with a premium of $120. Second, there is the effect of compound interest, which keeps increasing the investment values in the life to age 65 policy.

TERM CONVERSION PRIVILEGE

There is one feature of the $10,000 term to age 65 policy which has not been mentioned; the right to convert to permanent insurance at standard premium rates

at or before the age of 60. Here is how it works. Suppose you decide to convert your $10,000 term to age 65 policy with its annual premium of $120 to a $10,000 participating whole life policy when you are age 40, 50 or 60. You will be charged the same whole life premium as a new, medically-examined risk, and the new premium would be about $270, $380 or $600 a year respectively, payable for the rest of your life.

Valuable as this conversion privilege is, a serious financial problem could arise if you delay exercising the right to convert to permanent insurance. At age 40, for example, you may be able to afford a premium of $270 but you might find it well-nigh impossible to pay $600 a year in premiums from age 60 for the rest of your life. And yet, if your health is poor you may feel that you simply have to make the sacrifice.

Buy term insurance, by all means, if you feel it is the only solution you can afford at the moment; but *do* convert it before it's too late. If you don't, the odds are great that you will ultimately regret having spent $3,600 (30 x $120) on a term policy. Remember, the chances you will outlive the term policy are 70% or better.

WHEN IS A TERM POLICY JUSTIFIED?

A term policy, or a term addition to a permanent policy is not only justified but often absolutely essential for the man with dependents who, after paying taxes and providing for the necessities of life, has little, if anything, left over to save for retirement. Typical examples are young married university students and young professional men with no independent income. They have a bright financial future but they are not in a position to consider buying investments for at least a few years. For them, term insurance planned to fit their needs, their pocketbook, and designed to be converted at a later date to a permanent plan of insurance, may be the ideal beginning to long-term financial security.

However, for those who can save money, there are significant advantages in starting a programme of permanent life insurance as soon as possible.

IS IT ANY WONDER?

Is it any wonder – permanent insurance, with its unique and time-proven combination of decreasing term insurance and increasing investment values, is the surest road to basic personal and family security. As the *Monetary Times* said: "This unique and dual contribution is truly an impressive one that will be found in no other field of financial activity". Is it any wonder, then, that responsible and experienced experts in the field of family finance and economics recommend permanent insurance as every man's top-priority long-term investment?

STOCKS AND MUTUAL FUNDS

SOME INITIAL OBSERVATIONS

The healthy growth of the Canadian economy will not be achieved by one Canadian buying the listed stocks held by another Canadian. It will only come about by Canadians supplying the risk capital needed for discovering, promoting, developing and owning our commercial, industrial and natural resource potentials. The need for this, is perhaps, greater today than at any time in our history. The national accounts show that, in 1959, 60% of Canadian corporate dividends was paid to

non-residents of Canada. It may well be that an even larger proportion of future Canadian corporate dividends will be paid to non-residents, if Canadians do not provide more risk capital than they have in the past.

The federal govemment, no doubt aware of this danger, has been allowing since 1953 an income tax credit of approximately 20% of Canadian stock dividends paid to Canadians. Unfortunately, at least in the opinion of some, this tax concession has merely encouraged the large mass of Canadians to speculate in listed stocks. In any event, it seems to have had little effect in increasing the pool of Canadian risk capital.

These initial observations are made in order to avoid any possibility of the following comments being misconstrued as a recommendation that Canadians should not share in the ownership of Canada's corporate productive capacity. We wish merely to suggest that you put first things first. Place your basic security in top priority. Then, if you still wish to speculate with your luxury dollars you can do so with a minimum of danger to your basic security and your future standard of living. *Before you buy common stocks and mutual funds there are many things to learn.*

ERRATIC AND UNPREDICTABLE

The stock market is *erratic* and *unpredictable*. There is nothing you can do to stop it going up or going down. One day, without any apparent rhyme or reason, it creates a million in paper profits but, like a tantalizing court jester, it revokes its promise if too many decide to cash in on its paper munificence. Another day, on the unexpected impulse of some remote political or economic incident, it drops to a new low but, again like a tantalizing court jester, it raises the price of admission if too many want to get in. Its very unpredictability

is both a challenge and a fascination to those who buy common stocks and mutual funds.

RELENTLESS

The stock market is *relentless.* When a man retires, dies or needs money for any reason, it may agree to liquidate his holdings for $10,000. But a year or two later it may agree to pay $5,000 or $15,000. No one knows in advance.

As Mr. M.S. Rukeyser, an eminent financial writer, said, " . . . the investor in common stocks or other equities . . . puts his heirs in a speculative position where the fruits will depend on the time when they are plucked. Experience has shown that no one has yet found a way to synchronize his own life cycle with the ebb and flow of the business cycle".

ILLOGICAL

The stock market is *illogical.* The true value of an individual stock or a mutual fund – indeed of the market as a whole – should be the present value of future earning power. If the stock market were logical, *true values* and *market values* would be the same, but they seldom are. For many reasons, including a form of mass hysteria that compels many people to buy when they should sell – or vice versa – the difference between true and market values can be substantial.

DEMANDING

The stock market is *demanding.* The astute market operator must be constantly alert. He must be able to capitalize upon the difference between true and market values, buying when the market values are low and selling when they are high. Cutting one's losses is quite as important as making a profit. The successful

operator must keep up-to-date on economic and political conditions, tariff changes, new marketing and technological developments and many other factors which may have a good or bad effect on the stocks or mutual funds he holds or plans to buy.

WHY PEOPLE BUY

There are three main reasons why people buy common stocks and/or mutual funds; to secure an immediate income; to make a quick profit or to create a long-term investment. There are others, of course, one of which is the fear of inflation. But with this, we'll deal later.

FOR IMMEDIATE INCOME

Some people, not many, buy common stocks and mutual funds to provide what they hope will be a better immediate income than they would get from guaranteed investments, such as bonds and annuities. A significant stimulus in this direction came in 1953 with the 20% tax relief given to Canadian stock and mutual fund dividends.

The selection of common stocks for income is, perhaps, relatively simple. One way is to buy into one of the better managed mutual funds. Another way is to select from the blue chips used by the various stock exchanges in compiling their market averages. But even the best common stocks should not be bought and then forgotten, for in time some of them will deteriorate. This is borne out by the fact that many of the 20 blue chips in the *Dow Jones* average in 1925 are no longer used in compiling today's average.

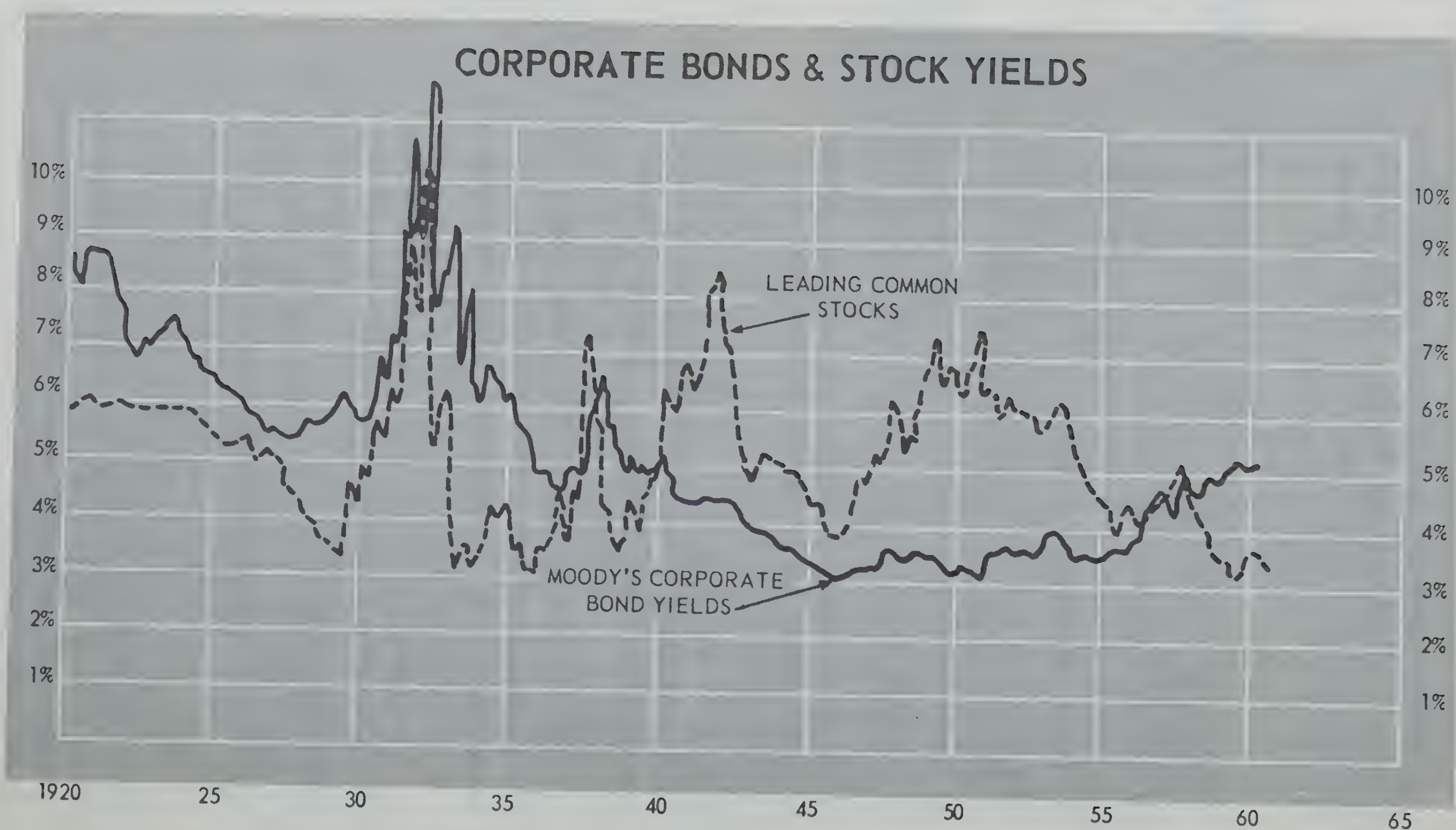
An extremely important consideration in buying common stocks for income is the possibility of dividends being reduced or omitted. No one, not even a group of investment analysts, can predict in advance whether a com-

pany or a group of companies will increase, decrease or omit dividends in the future. Statistics furnished by a leading U.S. investment service shows that, over the 10 years 1951 to 1960, an average of 30% of the companies studied actually decreased or omitted dividends.

There are undoubtedly times when common stocks and mutual funds hold a better promise of a good immediate income than guaranteed investments. Is today such a time? Many people believe stock and mutual fund yields will tend to stay below bond yields for some years unless there is a drop in common stock values; an expensive price to pay for a better yield. The chart on page 40, based on statistics from a leading U.S. investment service, is an interesting comparison of corporate bond and stock yields from 1920 to 1959. Certainly today's investor in search of immediate income might well give serious consideration to corporate bonds.

Indeed, many corporate investors are buying bonds today, not merely because bond yields are higher than stock yields, but because they feel they are putting themselves in a better position to take advantage of a possible future decline in the stock market. An astute investor should realize that the market value of his bond holdings automatically increases when the yield rate drops.

A life annuity is another type of investment which should not be overlooked. Frequently the income from bonds, stocks or mutual funds is not large enough to live on and the investor is forced to start liquidating some of the principal from time to time. This can be fatal if a person lives too long! The answer to the problem of living too long lies in buying a life annuity. With the cost of a life annuity being dictated very substantially by bond yields at the time of purchase, annuity costs today are about as low as they have been for a quarter of a century.



NOTE: Stock yields were significantly higher than bond yields from 1940 to 1957. Between 1920 and 1940 they were either about the same or below. In 1958, stock yields dropped sharply below bond yields.

FOR A QUICK PROFIT

The majority of people buying common stocks and mutual funds, however, are not in search of immediate income. They are basically interested in the possibility of making a quick profit. They may believe they are buying for immediate or deferred income or even as a long-term investment but they will nearly always be quick to take a *non-taxable profit* if an opportunity occurs. Indeed, with the unpredictability of the stock market they are, perhaps, wise to do so. The only trouble is that many of them will spend, rather than save the profit for future reinvestment.

Today, perhaps in even greater intensity that in the late 1920's, a great many people feel, or are persuaded to feel, a tremendous urge to speculate for profit. Due to the unusual but spectacular rise in the stock market from about 1949 to 1956, nearly everyone knows someone who is reputed to have made a killing. It is only natural that many of those who didn't have the luck to get in on this rise should be envious and, without too much urging, proceed to put all or part of their accumulated and future savings dollars into the stock market or into mutual funds. These people should ask themselves some serious questions. "When is the market going up again?" "Is the indicated yield attractive?" "Which stocks or mutual funds should I buy?" "Is one industry or mutual fund likely to do better than another?" "How long will I have to wait to make a profit?" "Will the market value be up or down when I retire or die?"

No one knows. Opinions differ. Many investment houses take a modestly optimistic view. Many mutual funds, on the other hand, take a highly optimistic view. Most economists are split between those who are moderately optimistic and those who are modestly pessimistic.

Many of them feel that the *rate of increase* experienced between 1949 and 1956, when the average price of stocks went up over 200%, is not likely to occur again in the foreseeable future. In fact, some students of the market ask how it is possible to make a large profit by paying, say, $12 for a common stock or a mutual fund share which someone else bought for $4 a few years ago.

However, there will always be a desire to speculate and there will always be hidden market situations which will do much better than the market as a whole. These are the stocks the speculator for quick profit must find but, unfortunately, even the experts have difficulty.

FOR A LONG TERM INVESTMENT

A number of people are now buying common stocks or mutual funds on the installment plan as a long term investment in the sincere belief that the probability of another spectacular rise in the market is greater than the probability of a relatively static or depressed market. Whether or not they will be right no one will know until the day of liquidation.

Looking back over the last 20 years, however, it seems reasonable to assume that a portfolio of good dividend paying stocks, built up over the years since 1940 and with dividends conscientiously reinvested, might well have a *market value* in 1960 significantly higher than the *guaranteed value* of a portfolio of good bonds. Not only was the yield on dividend paying stocks higher than on bonds during much of this 20-year period, but even more important, the unexpected rise in the market from 1949 to 1956 pushed up *market values* beyond the investor's wildest dreams.

But will this spectacular stock market experience repeat itself over the next twenty years? Why not study the

chart of Canadian Industrial Stock Prices* and then try your hand at projecting the future trend of stock prices over the next ten or twenty years. Your guess may well prove to be more reliable than that of the man advising you to buy common stocks or mutual funds.

In conducting this experiment we hope you will think in terms of a *rate of increase*, rather than in terms of a physical increase. For instance, between August 1949 and August 1956, a period of 7 years, the index rose spectacularly from 101.3 to 308.9. The physical increase was 207.6 points but the rate of increase was 3 times 101.3. This meant that $1,000 invested in August 1949 had a possible market value of $3,000 in August 1956; certainly a very handsome profit!

Can it happen again in the next 7 years?

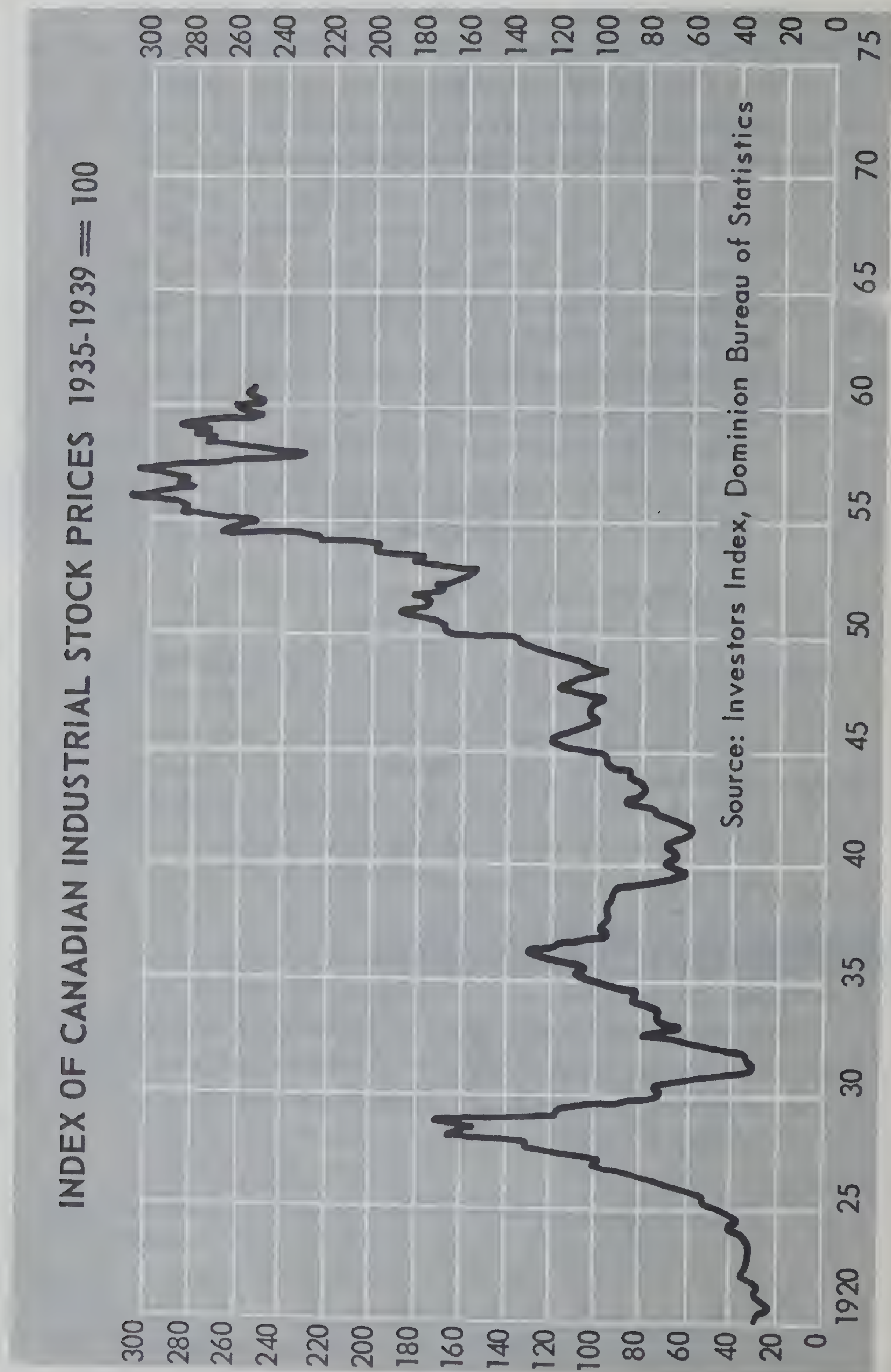
In August 1960, the index stood at approximately 250. To duplicate the profit made between 1949 and 1956, the index will have to rise 500 points from 250 to 750 in August 1967. Is such a rise in the next 7 years possible? Yes. Anything is possible. Is it probable? Your guess is as good as ours. In the final analysis, no one will really know until August 1967!

SHORT TERM PEAKS AND VALLEYS

Another major question facing anyone buying common stocks and mutual funds to provide money for retirement is this: "Will the market be in a peak or valley period on the day I retire?"

Turning again to the Investors Index*, you will see many peaks and valleys. Some lasted for a few months; others for years. You will also note that, in general, the peak periods were of shorter duration than the valley periods. For instance, a man retiring between 1920 and 1925 or

*See page 44.


INDEX OF CANADIAN INDUSTRIAL STOCK PRICES 1935-1939 = 100
Source: Investors Index, Dominion Bureau of Statistics
0 20 40 60 80 100 120 140 160 180 200 220 240 260 280 300
1920 25 30 35 40 45 50 55 60 65 70 75

between 1929 and 1934 would be worse off than a man retiring between 1926 and 1928; or a man retiring between 1946 and 1955 would be worse off than a man retiring after 1955. Will a man retiring after 1960 be worse off or better off than a man retiring between 1956 and 1960? *No one knows.*

COMPARISON OF LIQUIDATION VALUE AT MARKET HIGH AND LOW WITHIN ONE CALENDAR YEAR

		1936	1946	1956
International Nickel	High	$10,000	$10,000	$10,000
	Low	6,600	6,150	7,100
Loblaw "B"	High	10,000	10,000	10,000
	Low	7,850	7,850	6,450
Imperial Oil	High	10,000	10,000	10,000
	Low	8,050	6,850	5,900
Power Corporation	High	10,000	10,000	10,000
	Low	3,650	5,550	7,500
Canadian General Electric	High	10,000	10,000	10,000
	Low	7,300	9,050	7,750
Bathurst Power & Paper	High	10,000	10,000	10,000
	Low	5,700	7,400	8,400
Gatineau	High	–	10,000	10,000
	Low	–	7,000	8,300
Ford "A"	High	10,000	10,000	10,000
	Low	6,600	5,650	7,300

Example: If a certain number of shares of International Nickel had been sold at the market high in 1936, they would have brought $10,000. If, however, the same number of shares had been sold at the market low in 1936, they would have brought only $6,600.

But the short term peaks and valleys in individual common stocks are even more violent then in market averages and mutual funds. The foregoing table shows the character of the fluctuations experienced by eight well-known Canadian common stocks during the calendar years 1936, 1946 and 1956.

The unpredictable peaks and valleys pose a difficult problem at retirement for the man whose financial resources are limited to common stocks or mutual funds. Fearful of his shares being worth more later on he will most likely sell, from time to time, just enough to live on.

If the market tends upwards, as it did from 1933 to 1936 or from 1954 to 1956, he will benefit. On the other hand, if it tends downwards, as it did from 1929 to 1932 and from 1956 to 1960, his decision to liquidate his holdings piecemeal could well prove disastrous. How much better it would have been both for his peace of mind and financial security if, instead of having put all or nearly all his savings into common stocks and mutual funds, he had achieved a guaranteed investment target through permanent life insurance, convertible upon retirement, into a guaranteed life income!

WHAT ABOUT GROWTH STOCKS?

"Everywhere advertisements shout: 'stocks likely to triple' 'six low-priced stocks for a fast move', and every day thousands of people take the nest egg of savings they have built up and, without adequate knowledge or study, plunge headfirst into the stock market. Thoughtful observers are increasingly concerned about this frenzied atmosphere. The idea that any space age industry is bound to grow is a fallacy. 'The American Stock Exchange warns electronics today is in a state comparable to that of the radio industry in the 1920's when hundreds of companies began their struggle to be

the giants of today. Just a few made the grade. Many failed to survive. Similarly since 1900 no fewer than 2,500 automobile and truck manufacturing companies have been organized — but only six passenger car and 25 truck companies survive today.' 'The magazine of Wall Street says the excessive stock market boom in electronics will in time go the way of previous market fads, leaving many stock owners sadder if not wiser'."

The foregoing extracts from the October 1959 issue of Readers Digest aren't against growth stocks; they are merely warning the investor to "stop, look and listen" before he buys. Why? Because even the experts are never sure what the stock market will do.

HOW THE EXPERTS SELECT GROWTH STOCKS

In April 1959, one of Canada's leading financial papers, on behalf of a subscriber, put this key question to 28 leading Canadian investment houses:

"I have a certain amount of capital on which I do not need to earn a present income. I would like to put it away where it would be likely to return the highest possible capital profit over a period of, say, 10 years. What four or six stocks should I buy to give me a soundly diversified stake in the next major period of expansion in Canada?"

FIFTEEN DECLINED

Fifteen declined the challenge. Here are a few of the reasons given:

1. ". . . our firm deals more in less speculative ventures . . ."

2. ". . . we do not go along with the view that the development of raw natural resources will necessarily be the most profitable outlet for investment. . . ."

3. ". . . greatest capital gains normally imply great risk which is obviously not compatible with sound diversification . . ."

4. ". . . would entail more time and research than they could afford . . ."

5. ". . . . sense of responsibility . . . . would not permit them to make a choice for 10-year growth unless they had the opportunity to review and possibly revise their choice at much shorter intervals . . . ."

6. ". . . frankly, we are not that good . . ."

7. ". . . the type of investment that the entire investment community has been searching for, with very limited success, since the beginning of time . . ."

THIRTEEN ACCEPTED

The remaining thirteen accepted the challenge. Their selections were obviously made in the light of a great deal more financial and other background information than would have been available to the average customer. The April 1959 market value of their selections ranged from 95¢ to $97.50 per share and they represented a cross section of Canadian industrial and natural resource listed stocks. Here is how the average market value, by industry, altered between April 1959 and April 1960:

Industry	Number of Companies	Average Price per Share in: April 1959	April 1960
Utilities	7	$43.70	$40.55
Forest Products	3	32.92	30.17
Iron & Steel	3	31.13	26.58
Merchandizing	2	34.38	24.56
Other Industrials	7	28.81	25.53
Mines	14	8.96	7.03
Oils & Gas	10	9.63	6.71
Total	46	21.53	18.42

If you had bought one of each of the 46 selections in April 1959, the total market value would have been $990. If you had sold them a year later, the market value would have been $847, for a 14.4% loss. Alternatively, if you had put $100 into each of the 46 selections – a total of $4,600 – the market value a year later would have been $3,690, for a 19.8% loss. Assuming brokerage at 2%, the losses would have been 17.8% and 22.9%!

"But", you might well ask, "what happened to the market as a whole? Didn't it decline more than the 46 selected by the experts?" The answer is "No"! The investors index fell from 271.7 to 256.7, a decline of only 5.5%.

The subscriber laconically commented, "No one really answered my question." The financial paper did, however, highlight a major difficulty facing the selectors:

"Undoubtedly it is possible to uncover situations with unusual growth potential. But Canada's economic history shows that such prospects, more often than not, are discovered and developed by outsiders with vast resources of capital, or by large Canadian organizations which may permit public stock participation *but not directly in the growth situation itself.*"

FOUR BASIC RULES

The purpose of citing this example is not to embarrass the judgment of the economists and analysts who refused the challenge or to criticize those who, in accepting it, selected stocks that fared worse than the market average in the succeeding twelve months. Rather, the purpose is to help you to appreciate some of the problems involved in dealing in equities. To safeguard your own interests you should bear in mind the following maxims:

One, you should realize that no one, not even a team of experienced full-time stock analysts, really knows the

future course of an individual stock, a particular group of stocks, a mutual fund or the market as a whole.

Two, you should realize that no one really knows whether a particular stock or mutual fund is going to fare better or worse than the market as a whole.

Three, you should realize that you should never buy or sell a particular stock or particular mutual fund until you have personally satisfied yourself of the wisdom of the advice given to you.

Four, you should realize that it normally pays to take a tax-free profit whenever you can, for you may not have another opportunity for a very long time.

LUXURY DOLLARS AND COMMON STOCKS

You may, perhaps, feel that the foregoing suggests that you should never buy common stocks or mutual funds. Such is not the case. It is recommended, however, that you follow the advice of impartial and responsible experts in the field of personal and family finance. Direct your *savings* dollars into the guarantee provided by permanent life insurance. Then, but only then, set up a pocket of *luxury* dollars with which to buy and sell the *right* common stocks, mutual funds or any other speculative medium of your choice at the *right* times. Only in this way will you satisfy your desire to speculate without endangering the achievement of your own investment target.

IS IT ANY WONDER?

Is it any wonder the experts always put the certainty of permanent life insurance ahead of the uncertainty of common stocks and mutual funds in a long term investment programme?

GET-RICH-QUICK?

DEEP CONCERN AMONG RESPONSIBLE PEOPLE

"About once in every generation – when the stock market has taken a long swing on the high side of the price cycle – a beguiling breed of get-rich-quick philosophers . . . beckon to existing and potential policyholders to put minimal sums into life insurance itself and to invest the difference in securities. . . . Inflation is their obsession and ally and they brandish it about with predictions of shoddy consequences for any and all who would rely on fixed dollar investments for security and old age. This breed of easy money philosophers picks up friends along the way – champions of inflation, promoters, an occasional economist, lecturers, writers, editors and others – who could or think they could gain by proclaiming a new order in which security could be attained only by reaping one's share of speculative profits."

This extract above from the March 1960 issue of the *United States Review* is typical of the deep concern felt by responsible people with the attempts being made to substitute equity investments for permanent life insurance. Another typical example is the following statement made by the Superintendent of Insurance for Canada.

"From the beginning of time and in almost every field of human endeavour, the world has continually produced a multitude of self-styled experts, counsellors and tipsters who, in their inexperience and irresponsibility, see easy and cheap solutions to all man's needs and problems."

Perhaps the most compelling illustration of this concern comes from the responsible securities dealers and mutual

fund people themselves. Although the National Association of Securities Dealers has jurisdiction over dealers and mutual fund salesmen in the United States only, its April 1959 warning to its few less responsible members is sufficiently applicable to the Canadian scene to bear repeating in some detail:

"Association members are warned against use of certain published material that unfairly attacks ordinary life insurance and recommends the indiscriminate conversion of cash surrender values into proceeds for the purchase of investment company shares or other securities. There are several books, brochures, and reprints of published articles . . . which support this proposition by *misstatements, misinterpretation of facts, and dangerous and unqualified generalities*. . . . Serious violations of the Security and Exchange Commission's Statement of Policy on investment company sales literature can result from use of this material....Representations to customers, as part of an overall general sales approach ....that ordinary life insurance is a 'miserable investment' and that existing cash surrender values should be realized and the proceeds used to purchase mutual fund shares or other securities can have most undesirable results, both to the public interest and to the good name of the securities business."

These are not indictments of equity salesmen in general – indeed, the vast majority acknowledge and emphasize the value of permanent insurance. They *are*, however, serious warnings to the few get-rich-quick-philosophers within their ranks who urge their clients to put present and future insurance premiums into common stocks and mutual funds. These few operate in such a manner that a frank discussion of their shortcomings might be in the public interest.

MOTIVATED BY SELF-INTEREST

The get-rich-quick-philosophers often pose as stock market experts but frequently have little real knowledge of the history of common stocks and mutual funds. They advocate allegedly easy and cheap ways to achieve security but know nothing of family finance and the investment facts of life. They fan the fear of inflation but have never studied objectively the history of wholesale and retail prices. Proclaiming the inevitability of ever-rising common stock and mutual fund prices, they conveniently ignore the many occasions when market values dropped and stayed down, sometimes for years. And finally, while besmirching and villifying the quality of security inherent in permanent insurance, they strive by devious arguments and questionable evidence to dress their speculative proposals in a cloak of so-called security.

NOT AN ATTACK ON EQUITIES

Again, we must stress most strongly that we are not attacking speculation in equities nor the vast majority of those who sell equities. Nor are we attacking an intelligent operation in the stock market and the acknowledged virtues of a well-managed mutual fund.* Indeed, there is much to be said for the wise purchase and sales of the right mutual fund at the right time. As the late Justice Brandeis once said:

* We should, however, sound a note of warning respecting the systematic monthly purchase contract employed by one or two mutual funds. These contracts require the investor to absorb not only the expenses of the mutual fund itself but also the expenses of a corporate retail distributor and a corporate custodian. When choosing a mutual fund it would, perhaps be advisable to examine the prospectus and documents carefully and choose a fund which charges only the usual mutual fund commissions.

"The number of securities upon the market is very large. For a small investor to make an intelligent selection of these – indeed to pass an intelligent judgment upon a single one – is ordinarily impossible. He lacks the ability, the facilities, the training and the time essential to a proper investigation."

This is, however, an attack on the few get-rich-quick philosophers and their followers who, by any means they can think of, try to persuade many prudent and thrifty families to abandon the security and safety of permanent insurance and to tie their entire financial safety to the vagaries of an unpredictable and relentless stock market.

COST OF LIVING IN CANADA

Usually the first step in their sale's presentation is to fan the fear of inflation. This is regrettable to say the least, for a modicum of research on their part would have told them that the cost of living in Canada, in addition to being unpredictable for the future has been much more stable in the past than most people realize.

The consumers price index in 1920, 1925, 1930, 1935, 1940 and 1945 was 90.5, 74.6, 75.3, 59.9, 65.7 and 75.0, respectively. In other words, the cost of living in Canada during this entire period of 25 years, which took us through the 1929 crash and the whole of World War II, was never so high as it was in 1920. Even in 1950, 30 years later, the index of 102.9 was only 12.4 points above the index of 1920. Between 1950 and 1959, however, the index rose from 102.9 to 126.5.

The increase in the cost of living that has been taking place since World War II is certainly a major problem facing Canadians today but is it one which can be solved by fanning the fear of inflation in the years to come? What Canadians must do, it seems to us,

is to follow the advice of C. C. Balderston, vice-chairman of the U. S. Federal Reserve Board of Governors, who said recently, "while the majority of investors cannot outrun inflation.... they can unite to fight it by demanding prudence in the management of national affairs and by exercising it in the conduct of their own".

WHOLESALE PRICES AND INFLATION

Further evidence of the unpredictability of the cost of living lies in the history of wholesale prices which have been charted back as far as 1800. Using this data and other statistics relating to the past, as well as giving due consideration to present-day social, economic and political developments, the Canadian 1959 senate committee on finance reached the following conclusion following an enquiry into the causes of price fluctuations:

"Over the past 150 years, there has been no persistent trend. There have been long periods of relative stability and of decline as well as sharp upward movements. It is apparent that the major upswings were connected with extraordinary events, especially wars. It is strikingly evident that the effects of the Napoleonic War, of the American Civil War and of World Wars I and II have been the prime causes of all the pronounced increases in price levels that have occurred."

It is, perhaps, more than mere coincidence that a leading United States economist, Professor Upgren, seems to agree substantially with our own senate committee on finance. In his series, *How to be Your Own Economist,* he analyzed the situation as follows:

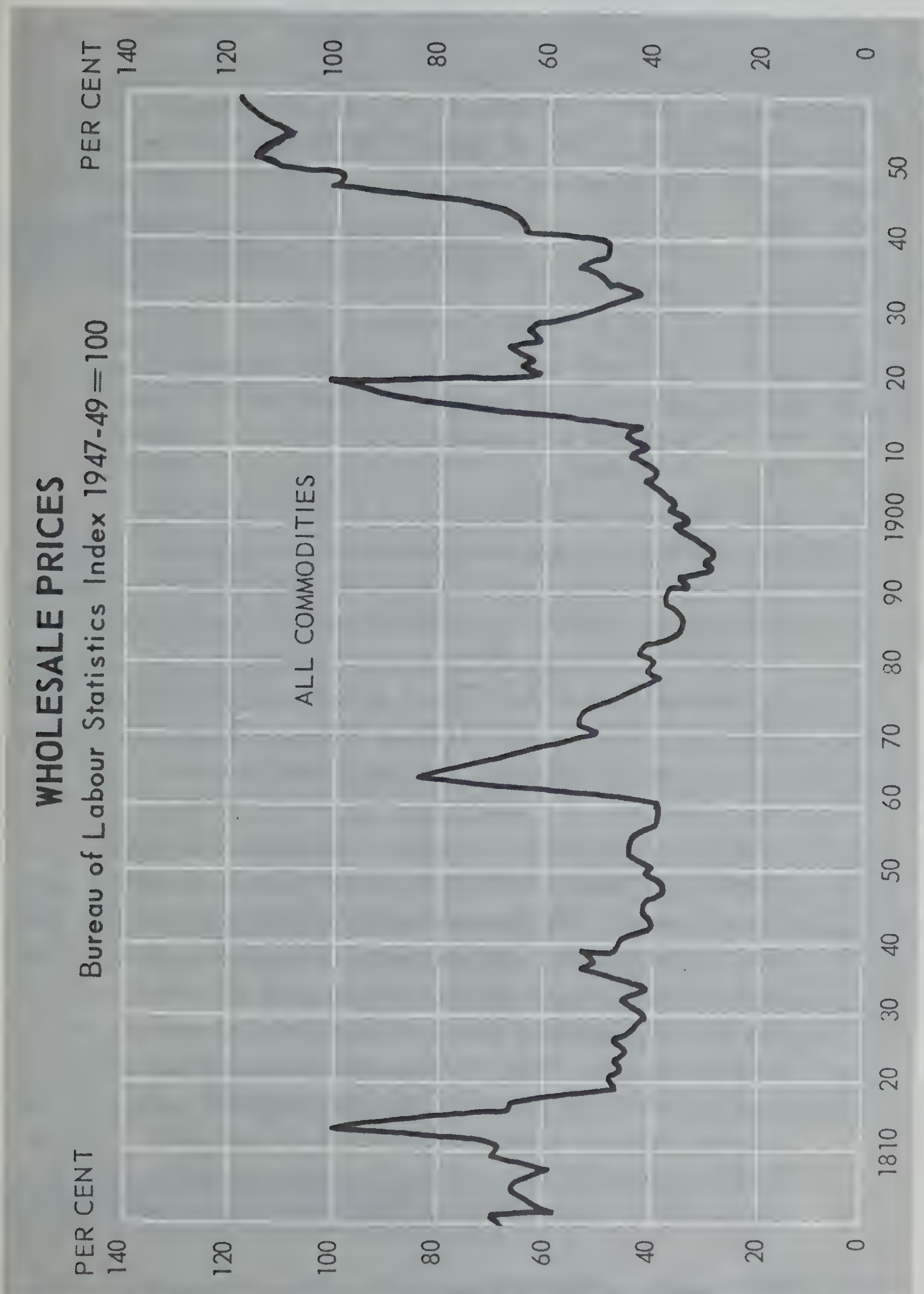
"....from the end of the War of 1812 or the end of the Napoleonic Wars to the present time is not a record

of inflation by any means. Rather it is a record of stable prices for some periods, falling prices for long periods and rising prices only in wartime periods or in very limited peacetime periods . . . There have been only two periods of marked peacetime periods of rising prices wholly unconnected to war. These were from 1898 to 1913 and from 1956 to 1958. In the case of a price rise in each of these two periods, there were special causes and they are not likely to be recurring causes."

If history repeats itself, as it has a habit of doing, no one can dogmatically prophesy creeping inflation. Perhaps time will prove Professor Upgren and history to be wrong but the evidence suggests to us that it would be unwise to allow the fear of inflation to influence unduly our spending and saving habits.

COMMON STOCKS AND INFLATION

The second step in the sale's presentation of the get-rich-quick philosopher is usually to prophesy that increases in common stock and mutual fund prices will always compensate for any future increases in the cost of living. In fact, these champions of inflation occasionally claim that they are time-proven inflation hedges. History shows that this is not the case. The stock market and the cost of living have often moved in different directions or, if in the same direction, one has moved more violently than the other. Some interesting examples of this can be found in a comparison between Dow-Jones averages and the official U.S. consumer price index since the turn of the century. Since 1900, there were at least 10 periods when the Dow-Jones average dropped very sharply while the consumers price index dropped either much less dramatically or actually increased. For example, between April 1930 and July 1932, a period of only 27 months, the Dow-Jones average dropped 86% but the cost of living dropped only 20%. In


WHOLESALE PRICES
Bureau of Labour Statistics Index 1947-49=100
ALL COMMODITIES
PER CENT
140
120
100
80
60
40
20
0
1810
20
30
40
50
60
70
80
90
1900
10
20
30
40
50

SOME COMMON STOCK DECLINES SINCE 1900 VS. CONSUMER PRICE INDEX				
Period		Stock Prices	Consumer Prices	Interval to Recover Stock
From	To	% Chg.	% Chg.	Price High
June 1901	Nov. 1903	− 46	+ 6	45 months
Jan. 1906	Nov. 1907	− 49	+ 7	128 months
Nov. 1916	Dec. 1917	− 40	+ 19	32 months
Nov. 1919	Aug. 1921	− 47	− 4	61 months
Sept. 1929	Nov. 1929	− 48	− 0.4	302 months
Apr. 1930	July 1932	− 86	− 20	287 months
Mar. 1937	Mar. 1938	− 49	− 1	105 months
Oct. 1939	Apr. 1942	− 40	+ 15	63 months
May 1946	June 1949	− 24	+ 29	47 months
Apr. 1956	Oct. 1957	− 19	+ 5	29 months

other words, common stocks valued at $1,000 dropped in value to $140 while the cost of a packet of goods and services costing $1,000 dropped to only $800! Even more sobering is the time it took the Dow-Jones average to recover its former level after one of these drops. For example, almost 24 years elapsed before the Dow-Jones average regained its April 1930 level.

The situation in Canada has been much the same. Between September 1929 and June 1932, a period of less than 3 years, the investors index dropped 85% but the cost of living dropped only 20%. In other words, common stocks valued at $1,000 dropped in value to $150 but $1,000 of goods and services dropped to only $800. Furthermore, it took 22 years for the investors index to regain its 1929 level. The most recent peak was in August 1956 when the index stood at 308.9. By October 1960, 4 years later, it had *decreased* 20.2% to 246.5 while the cost of living had *increased* 8.6%.

One may ask, "Will it take another 22 years for the investors index to return to its 1956 peak of 308.9?" If it does, the most inflated price in Canada today may

not be the price of food, clothing and shelter but the price of common stocks and mutual funds. Indeed, it is difficult to see, under such circumstances, how it can be argued that future common stock and mutual fund values are always sure to offset any increase in the cost of living.

STOCK YIELDS AND INFLATION

Still another favourite theory of the champions of inflation is that any increase in the cost of living will be offset automatically by an increase in dividend income from common stocks and mutual funds.

While it is true that the dividend rate of many common stocks has increased with the passage of time there is little evidence indicating that this has been due to inflation. In the vast majority of cases, it was the result of good management. Perhaps a more realistic evaluation of this theory could be based on an actual example. Suppose in 1951 a widow inherited 300 shares of Underwood, Chrysler and A.T. & T., then paying more than $6,000 a year in dividends. In 1952, the dividend income would have dropped to $5,700 and then to $5,175, $4,425, $4,350 and $3,930 in 1953, 1954, 1955 and 1956. It would have risen to $4,020 in 1957 but would have dropped to $3,150 in 1958. And yet, with the exception of 1953, the cost of living rose slightly in each of the other seven years. Admittedly, another choice of stocks might have produced a steady or even a rising income but the problem is that no one can choose them in advance.

JUST A NOTE OF WARNING

Common stocks and mutual funds might go up or they might go down and the cost of living might go up or it might go down but history shows they don't always go

up and down together or to the same degree. So beware of the get-rich-quick philosopher who would try to make you believe they always do.

FEAR OF INFLATION

RESPONSIBLE OPINIONS ON INFLATION

What do the experts think? Here are some of their observations made in 1959 and 1960:

"There is no lack of evidence that fears of continued inflation have been influencing people's investment decisions. As a consequence, ironically, the worst price inflation has been in popular inflation hedges, such as the stock market.... common stock prices, contrary to popular notion, do not move up in any systematic way with the cost of living. Indeed, stocks have quite often declined at the same time consumer prices were rising....using common stocks as an inflation hedge would prove futile if everybody tried it. Shifting to equities would develop accelerating advance in their prices to a point where collapse from overvaluation would almost certainly ensue. In eluding inflation, as in fleeing from a burning theatre, the greater the number of people who try to crowd through the same exit the smaller the chance for successful escape."

– *First National City Bank*

"As more and more investors attempt to hedge against inflation by purchasing equities, the price-earnings ratio rises....the idea that the speculators are merely fooling one another is likely to take hold....investment in stocks is an imperfect and hazardous rather than a sure-fire hedge against inflation for a whole society. It works only so long as most investors do not

try to take advantage of it."

— K. R. Bopp,
president of the Federal Reserve Bank of Philadelphia

"Practically every type of investment fund....is shifting towards more common stock ownership. This demand has been so persistent that the available supply of equities is shrinking." *— E.L. Hall,*
partner, Davis and Hall, Investment Management

"Price-earnings ratios for stocks are about as high as they have ever been and dividend yields have slipped below bond yields, reversing the pattern that has prevailed for more than two decades...."

Morgan Guaranty Trust Company

"I think the people who have been buying stocks merely as an inflation hedge, without regard to real value and earning power, are going to be sorry in the end they did so." *— James E. Coyne,*
Former Governor of the Bank of Canada

These are highly responsible opinions. Read them again phrase by phrase. Why? Because they come from experienced and knowledgeable men whose observations on economics and finance should not be taken lightly or brushed aside on the strength of irresponsible and inexperienced advice.

MUTUAL FUND ILLUSTRATIONS

Mutual fund sales illustrations are usually based on the actual past experience of the particular fund. Since most of these illustrations commence at some relatively low point in the market, such as 1932 when the market hit its lowest point or 1949 which ushered in the most spectacular seven-year bull market in modern stock

market history, responsible salesmen always preface their illustrations with a warning that the period illustrated is a favourable one. They do not claim nor guarantee that this past favourable experience will necessarily be repeated.

Some among them, endeavour to paint a picture virtually assuring repetition of past experience – sometimes better. With their illustrations and other so-called historical evidence, they frequently create the impression that an investment in mutual funds is certain to keep going up and up in value at, say, 8½% per annum or more.

One item of so-called historical evidence sometimes produced is some published stock market average or index. These are averages compiled by statisticians who, from time to time, introduce a new, stronger stock and drop an old and weaker stock according to a prescribed formula. Useful as these averages may be to the financial world, they are not necessarily a true reflection of how well an individual or a mutual fund would have operated a portfolio of common stocks.

While the prices of many mutual fund shares have kept pace with a published index – such as the Investors Index, Cowles Commission Index or the published averages of the Toronto and New York Stock Exchanges – for short periods of time, there seems to be little evidence that they have been able to keep pace with the indices over longer periods. For instance, in December 1959 the net asset values per share of two of Canada's older mutual funds were approximately $9 and $8. Had their net asset values back in 1932 followed the pattern of the Investors Index – rather than the judgment of their respective investment committees – their net asset values in December 1959 would have been about $12 and $17 respectively! Be assured that

this is not a reflection on these unnamed mutual funds. It is, however, a reflection on those who suggest that the foresight of any individual or any management committee is more efficient than a hind-sight statistical average, such as the Investors Index.

One might say that these indices, because of their manner of construction, correct all human errors without penalty! They clean out the deadwood before it becomes deadwood. They move from buggies to automobiles; from railroads to airlines; from steam to electricity; from radio to television and from bullets to missiles – smoothly, effortlessly and without loss to the investor! Why? Because there was no investor. A stock market average or index is a *statistic*, not an investment fact. A large portfolio may beat it for some of the time but it is difficult to see how it could beat it all of the time.

All of which is not to say that many individuals and mutual funds have not taken good advantage of past bull markets but, rather, to warn you that what has happened in the past may not happen again, next year, in the next ten years or at anytime in your lifetime.

DOLLAR AVERAGING

'Dollar-averaging' is a favourite argument employed to dispel the doubts of those concerned about market fluctuations. "Don't worry about the market going up or down. No matter what the market price may be, if you'll spend $100 a month I'll guarantee that the average price per share will be less than it would be if you bought one share a month. Suppose the market price per share in six successive months is $10, $5, $20, $10, $10, and $5. If, in each of the six months, you spend $100 you would have 75 shares costing $600. This works out at $8 per share. On the other hand, if you bought one

share each month, the average price per share, would be $10!"

There is nothing magical about this result. As any mathematician will tell you, "n divided by the sum of the reciprocals of n random numbers can never exceed the sum of the n random numbers divided by n"!

Surely the ideal method is to spend $100 in each of the first two months; then sell in the third month for $600; then sit tight for the fourth and fifth months and, finally, spend the $600 to buy 120 shares at $5 each in the sixth month. In this way you would own 120 shares for an outlay of only $200, and the price would be $1.67 per share – not $8.00!

Absurd as this illustration may seem, doesn't it show that the proper approach to speculation is to at least *try* to buy low and sell high?

What 'dollar averaging' does is this: it prevents you buying a lot of shares when the price is high but, at the same time, it prevents you buying more shares when the price is low!

If you feel you shouldn't at least try to buy low and sell high, you may be one of those individuals Will Rogers was thinking about when he said, "Don't gamble. Take all your savings and buy some good stock and hold it till it goes up; then sell it. If it don't go up, don't buy it!"

INFLATION REDUCES INSURANCE COSTS

There is no gamble in permanent life insurance. The following table shows if we do experience more inflation, permanent life insurance is one of the few family necessities that won't go up in price.

PERCENTAGE OF AVERAGE EARNED INCOME REQUIRED TO PAY AN ANNUAL PREMIUM OF $115 OR TO BUY A PACKET OF GOODS COSTING $115 IN 1939

Year	Average Earned Income	Consumers Price Index	Packet of Goods	Annual Insurance Premium	Percentage of Earned Income for Goods	Percentage of Earned Income for Insurance
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1939	$1,122	63.2	$115		10.2%	10.2%
1940	1,229	65.7	120		9.8	9.4
1941	1.393	69.6	127		9.1	8.3
1942	1,512	72.9	133		8.8	7.6
1943	1,648	74.2	135	Premiums	8.2	7.0
1944	1,735	74.6	136		7.8	6.6
1945	1,803	75.0	136	unchanged	7.5	6.4
1946	1,874	77.5	141	at	7.5	6.1
1947	2,034	84.8	154		7.6	5.7
1948	2,291	97.0	177	$115	7.7	5.0
1949	2,388	100.0	182		7.6	4.8
1950	2,530	102.9	187	each	7.4	4.5
1951	2,786	113.7	207		7.4	4.1
1952	2,976	116.5	212	year	7.1	3.9
1953	3,144	115.5	210		6.7	3.7
1954	3,216	116.2	211		6.5	3.5
1955	3,293	116.4	212		6.4	3.5
1956	3,493	118.1	215		6.2	3.3
1957	3,600	121.9	222		6.2	3.2
1958	3,703	125.1	228		6.2	3.1
1959	3,831	126.5	230		6.0	3.0

(2) Average Earned Income of Non-agricultural Employed Labour Force. Derived from DBS Statistics. (3) DBS Consumers Price Index. (4) Packet of Goods Costing $115 in 1939, adjusted by DBS Consumers Price Index for subsequent years.

For example, if a packet of household goods and services purchased in 1939 had cost $115, how much would the same packet of goods and services have cost in 1949 and 1959? According to consumers price index it

would have gone up to $182 by 1949 and to $230 by 1959. And yet, the $115 premium for a $5,000 participating ordinary life policy, purchased in 1939, would have remained the same throughout!

And this table has another interesting story to tell. Expressed as a percentage of average earned income, the cost of a packet of goods and services worth $115 in 1939 dropped from 10.2% in 1939 to 6.0% in 1959 but the cost of the $5,000 policy dropped from 10.2% in 1939 to 3.0% in 1959. Therefore, much as you may fear inflation, isn't it obvious that fear of inflation should never be a reason for avoiding or abandoning permanent life insurance? Indeed, fear of inflation is one of the best reasons for not only maintaining your insurance in force, but if you can possibly manage it, increasing your programme of permanent insurance.

IS IT ANY WONDER

Is it any wonder that responsible experts in family finance recommend permanent insurance as a long-term investment, regardless of one's view on inflation and deflation.

EPILOGUE

About the author..........Edward Ruse, B.A., F.S.A.

Ted Ruse could still be taken for a football quarterback, hockey centre, or a night-raiding Royal Air Force tailgunner. While those feats are behind him, his professional responsibilities today demand the same degree of cool calculation. As a modern actuary, our author is an economist, statistician and researcher all rolled into one.

The author was born in Japan, where his father was classics professor at Tokyo's Imperial University and his mother an Anglican missionary and teacher. Moving at seven to a Canadian prairie farm at Oak Lake, he attended St. John's College and the University of Manitoba in Winnipeg. He earned his BA in economics and mathematics with the help of such jobs as farming, law clerk, telegrapher and male secretary. He joined his present company in 1930, rising through the ranks to actuary, with special emphasis on research and the development of life insurance policies. His hobby has been studying and evaluating the great variety of long-term investment contracts available today not only through life insurance but in other types of investments.

The author presents some challenging arguments in favor of permanent insurance as a long-term investment, and proof of his sincerity is to be found in his own soundly planned programme of family security. Basically it consists of three substantial permanent and participating insurance policies, all containing total disability and family income benefits, the latter providing additional death protection during the minority of his children. He and his wife have a sizeable investment in a nice home and, occasionally, they dabble in common stocks when the market seems right. For cash emergencies he has always fallen back on the guaranteed loan values in his permanent insurance which are always religiously repaid in monthly instalments. For retirement, they can look forward to a home free of debt and a comfortable income provided by his company's pension fund and the growing cash values in his permanent insurance.

IS IT ANY WONDER started out by stressing the importance of planning your long-term investment programme and doing so without delay. It bows out on the same note.

There are five steps; establishing a family budget, familiarizing yourself with various types of investment, giving top-priority to one type of investment, choosing your advisers with care and, finally, action – not tomorrow, not next year, not when you get your next raise or lucky break, but Now.

We hope that IS IT ANY WONDER has given you a better appreciation of the many reasons why permanent insurance should be the foundation of your long-term investment programme but, above all, we hope it has helped you and will continue to help you in making the right decision for the long-term security of yourself and your family.

The Publishers.

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Planing expertschoose.

— Hidden values

— Term insurance

— Stocks and mutual funds

— Get rich quick

— Fear of inflation